Money, Greed and Growth.

Keith Rankin, 28 July 2015

In response to my Money, Flow and Debt (*Daily Blog* and *Evening Report*, 25 July 2015) one reader responded to my comments about money hoarding and compensatory debt thus:

"Keith – the [river-causeway] metaphor did not help my understanding unfortunately – which is pretty basic already. So please explain simply. I assume greed is the motive behind the $ hoarders – how do you change that? The few wealthy people I have met, can't help themselves – they have to continue increasing their wealth well past providing for their needs – it is like an obsession that I can't get my head around. And this greed is behind the banks that are only too pleased there are hoarders (being hoarders themselves personally). So they have a system where they can create money out of nothing (book entry debt), but don't create the interest required – which of course eventually creates winners and losers – and of course the hoarders are in like wolves to increase their hoard from the losers = increasing obscene inequality. Oh well, say the banks, lets create some additional money (out of thin air) to help the losers pay back their loans and interest (still not creating enough for the additional interest) ie so economic growth can continue – but the only people who believe in continued economic growth on a finite planet are madmen – and economists. So what is at the end of your causeway?"

These are pertinent questions, and I think my answer did them justice.'

"'Greed' is a term that means different things to different people. It is two of the seven deadly sins; 'avarice' and 'gluttony'. Gluttony, or conspicuous consumption, is probably not relevant here. Indeed, by not spending their money, people may be averting this particular sin, thinking that their 'frugality' (actually miserliness) is virtuous. Google this: '15 Celebs Who Lead Frugal Lives'. Avarice (refer dictionary.com) on the other hand is an ambiguous term that includes both the "insatiable greed for riches" and the "miserly desire to gain and hoard wealth". In the distant historical context of the seven sins, avarice was probably understood as miserliness. In a capitalist context it probably also means something like 'upward social mobility'. Thus the early merchant and industrial capitalists were trying to buy their way into the landed gentry.

"For some, their money mountains are a result of miserly greed. For others, the mountains of money are simply a measure of success in doing what they do best; with the market rewarding them through a kind of 'winner takes all' formula. However, even for these, the accumulation of money/success tends to be intoxicating, and they find it difficult to let go of the money, either through genuine investment (which is a form of spending) or through philanthropy. Further, even many in this second group of rich tend to resist paying taxes. The mere possession of lots of money can corrupt otherwise good people.

"The matter of interest, as in your comment, is something of a red herring. It's simply a price, normally paid by borrowers to lenders (plus a markup for financial intermediaries such as banks), but which (when negative) can be paid by lenders to borrowers. When unspent money is abundant and bankable borrowers are scarce, then, in a free market, deposit interest rates should be negative.

"Money is created 'out of thin air'. That's the nature of money; it's a technology, not a commodity. But it's created in a context, not out of caprice. Money that's withdrawn from circulation no longer functions as money. So the financial system – through private or public initiatives, or a mix of both – must create new money to compensate for the money withdrawn from circulation. Note that I said "banks can, with lesser or *greater difficulty* [emphasis added here], offset the dampening effect of the money hoarders". We see that, when financial crises are imminent, when the accumulated unspent hoards become too great, then banks (often through other financial institutions) must adopt predatory lending practices in order to perform this money-cycling function.

"On the question of economic growth, I intimated that there is a green solution. The essential idea is that we do not need to maximise output in normal times, though productivity growth should always be seen as a good thing. The system of income distribution needs to work in a way that allows ordinary people to choose to work less (rather than to earn more) as an option for an improved living standard. The solution here is through the recognition of public equity as the basis for a publicly-sourced income stream that complements private earnings. Once public equity is recognised and supported, economic growth ceases to be the only way to reduce inequality.

"My causeway need have no end this millennium, so long as we adopt sustainable income distribution practices. My fear is that, by the year 2100, we will have entered a new dark age, following a rapid Malthusian collapse. My optimism however, is that the people (especially the young people) in places like Greece and Spain and Detroit may be getting to grips with the issues – including the well-heralded internet issues of the 'free economy' (as in 'free services' rather than 'free-markets') – and are creating parallel social technologies that substitute in part for the monetary system we have come to know but not understand."
